

Message Text

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ACTION EB-08

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FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC NIACT IMMEDIATE 5336

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E.O. 11652: N/A

TAGS: EAIR, CO

SUBJECT: CIVAIR: FUEL PRICE DIFFERENTIAL - FIRST DAY'S
NEGOTIATIONS

REF: STATE 300863

1. US AND COLOMBIAN SIDES MET FOR NEARLY FOUR HOURS MONDAY AFTERNOON TO DISCUSS REDUCTION IN FUEL PRICE FOR AMERICAN CARRIERS OPERATING IN COLOMBIA. MEETING WAS CO-CHAIRLED BY EC/COM COUNSELOR AND FORNOFF UNDERSECRETARY FOR ECONOMIC AFFAIRS.

2. IN OPENING STATEMENT, GOC REP CLAIMED IMPOSSIBILITY OF ESTABLISHING FIXED PRICE DUE TO LEGAL CONSIDERATIONS AND PROBABLE VARIATIONS IN CONSUMPTION, AND DIFFICULTIES IN PUTTING PRICE REDUCTION INTO EFFECT BEFORE MARCH 1, 1978. INSTEAD OF FIXED PRICE, GOC PROPOSED REFERENCE PRICE WHICH WOULD FLUCTUATE BETWEEN 45 AND 48 CENTS A GALLON. SUBSEQUENTLY, AVIANCA REPRESENTATIVE SECONDED GOC STATEMENT, POINTING OUT THAT BECAUSE OF LEGAL AND POLITICAL PROBLEMS, ECOPETROL ITSELF COULD NOT GIVE DISCOUNTS AND MUST MAINTAIN ITS AVERAGE LEVEL OF INCOME ATTRIBUTABLE TO FUEL SALES. AVIANCA SPOKESMAN THEN SET FORTH A FORMULA IN WHICH PRICE

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WOULD BE THE RESULT OF OTHER FACTORS, SUCH AS CONSUMPTION LEVELS AND INTEREST FROM BRANIFF'S ADVANCE PAYMENT. UNDER THIS SCHEME, INITIAL PRICES WOULD BE 46 CENTS A GALLON FOR BRANIFF AND 43.16 CENTS A GALLON FOR AVIANCA AND AEROCONDOR. BRANIFF'S PRICE WOULD BE ADJUSTED UPWARDS IF THAT COMPANY'S FUEL CONSUMPTION EXCEEDED ORIGINAL ESTIMATES.

3. EC/COM COUNSELOR REPLIED BY WELCOMING GOC COMMITMENT TO A SOLUTION TO THE FUEL PRICE PROBLEM AND NOTED THAT, AFTER A DELAY OF SEVERAL YEARS, WE WERE NOT AT A POINT OF PUTTING INTO EFFECT AN AGREEMENT ON FUEL PRICES FOR AMERICAN CARRIERS OPERATING IN COLOMBIA. HE STATED THAT THE US OBJECTIVE WAS A FINAL PRICE OF AMERICAN CARRIERS OF 45 CENTS A GALLON AND THAT, IN VIEW OF THE DELAY SO FAR, A SEVEN CENT REDUCTION SHOULD BE PUT INTO EFFECT IMMEDIATELY AND A FURTHER THREE CENT REDUCTION BY JANUARY 1, 1978. HE SAID THAT WHILE SUPPLY CONTRACTS COULD BE SIGNED BETWEEN THE AMERICAN CARRIERS AND THE FUEL COMPANIES, THE AGREEMENT ITSELF SHOULD BE THE SUBJECT OF AN EXCHANGE OF DIPLOMATIC NOTES.

4. FOLLOWING CONSULTATION WITH BRANIFF ADVISORS, AND INFORMAL CONSULTATION WITH FORNOFF REPS, US SIDE PROPOSED THAT AN AGREEMENT BE REACHED ALONG THE FOLLOWING LINES: A) AN EXCHANGE OF DIPLOMATIC NOTES ESTABLISHING A SINGLE REFERENCE PRICE OF 46 CENTS PER GALLON FOR AMERICAN CARRIERS ENTERING INTO SUPPLY CONTRACTS WITH LOCAL FUEL COMPANIES; B) SUPPLY CONTRACTS WOULD FOLLOW PATTERN PREVIOUSLY AGREED TO BY BRANIFF, INCLUDING ADVANCE PAYMENT; C) CONTRACTS WOULD RUN FOR ONE YEAR BUT COULD BE RENEGOTIATED IF CONSUMPTION EXCEEDS ORIGINAL NEARLY ESTIMATE BY 10 PERCENT; D) CONTRACTS WOULD PERMIT GENERAL FUEL PRICE INCREASES DECREED BY ECOPETROL, BUT CENTS PER GALLON INCREASE SHOULD BE THE SAME FOR BOTH LIMITED OFFICIAL USE

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AMERICAN AND COLOMBIAN AIRLINES; E) REDUCTIONS WOULD GO INTO EFFECT JANUARY 1, 1978.

5. PROPOSAL APPEARED TO BE GENERALLY ACCEPTABLE TO GOC SIDE. AT THIS POINT, HOWEVER, ESSO REP SAID THAT QUARTERLY ADVANCE PAYMENT WOULD NOT GENERATE SUFFICIENT INTEREST INCOME AND SUGGESTED THAT FORMULA SHOULD BE BASED ON PERMANENT DEPOSIT EQUAL TO THE VALUE OF ONE QUARTER'S FUEL PURCHASES. FOLLOWING SOME QUICK CALCULATIONS, US SIDE REPLIED THAT ADDITIONAL COSTS OF PERMANENT DEPOSIT FOR 46 CENT FUEL WOULD BE UNREASONABLE, BUT THAT IDEA WOULD BE ACCEPTABLE IF FUEL PRICE WERE SET AT 45 CENTS A GALLON (AVIANCA REP COMMENTED THAT US SIDE HAD SET NEGOTIATIONS BACK 20 YEARS WITH ITS COUNTERPROPOSAL).

6. AFTER FURTHER DISCUSSION, COLOMBIANS PROPOSED, AND WE ACCEPTED, THAT MEETING BE ADJOURNED UNTIL TUESDAY AFTERNOON IN ORDER TO PERMIT THEM TO STUDY ENTIRE US PLAN.

7. QUESTION OF PENDING ROUTE REQUESTS FOR COLOMBIAN CARRIERS WAS NOT BROUGHT UP IN FORMAL MEETING. HOWEVER,

IN RESPONSE TO QUERY DURING RECESS FROM COLOMBIAN CO-
CHAIRPERSON, EC/COM COUNSELOR REPLIED THAT IF FUEL
PRICE PROBLEM COULD BE RESOLVED SATISFACTORILY, EMBASSY
WAS PREPARED TO MAKE STRONG RECOMMENDATION THAT USG ACT
FAVORABLY ON COLOMBIAN ROUTE REQUESTS.
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